Mr. Ramesh Ramanathan
Chairman
Jana Capital Limited
No. 4/1 to 4/8,
Meanee Avenue Road,
Old Tank Road, Ulsoor,
Banglore-560042

May 11, 2023

***Dear Sir/Madam,***

***Re: Rating Letter for NCD of Jana Capital Limited***

India Ratings and Research (Ind-Ra) has taken the following rating actions on Jana Capital Limited's (JCL) non-convertible debentures (NCDs):

| Instrument | Date of Issuance | Coupon Rate (%) | Maturity Date | Size of Issue (billion) | Rating/Rating Watch | Rating Action |
|---|---|---|---|---|---|---|
| NCDs^ | - | - | - | INR15.5 | IND B-/Rating Watch with Negative implications | Assigned; Placed on Rating Watch with Negative Implications |
| NCDs* | - | - | - | INR2.5 | IND B-/Rating Watch with Negative Implications | Maintained on Rating Watch with Negative Implications |

^ Yet to be issued
*Details in Annexure

In issuing and maintaining its ratings, India Ratings relies on factual information it receives from issuers and underwriters and from other sources India Ratings believes to be credible. India Ratings conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security.

The manner of India Ratings factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in India where the rated security is offered and sold, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors.

Users of India Ratings ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information India Ratings relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to India Ratings and to the market in offering documents and other reports. In issuing its ratings India Ratings must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with



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respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

India Ratings seeks to continuously improve its ratings criteria and methodologies, and periodically updates the descriptions on its website of its criteria and methodologies for securities of a given type. The criteria and methodology used to determine a rating action are those in effect at the time the rating action is taken, which for public ratings is the date of the related rating action commentary. Each rating action commentary provides information about the criteria and methodology used to arrive at the stated rating, which may differ from the general criteria and methodology for the applicable security type posted on the website at a given time. For this reason, you should always consult the applicable rating action commentary for the most accurate information on the basis of any given public rating.

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It will be important that you promptly provide us with all information that may be material to the ratings so that our ratings continue to be appropriate. Ratings may be raised, lowered, withdrawn, or placed on Rating Watch due to changes in, additions to, accuracy of or the inadequacy of information or for any other reason India Ratings deems sufficient.

Nothing in this letter is intended to or should be construed as creating a fiduciary relationship between India Ratings and you or between India Ratings and any user of the ratings.

In this letter, “India Ratings” means India Ratings & Research Pvt. Ltd. and any successor in interest.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please email us at infogrp@indiaratings.co.in

Sincerely,

India Ratings

**Pankaj Naik**
**Director**

**Sunil Kumar Sinha**
**Senior Director**

**Annexure: ISIN**

| Instrument | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Ratings | Outstanding/Rated Amount(INR million) |
|---|---|---|---|---|---|---|
| NCDs | INE028U08016 | 30/10/2019 | 0.05 | 31/05/2023 | IND B-/Rating Watch with Negative | 1500 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | Implications | |
| NCDs | INE028U08024 | 30/06/2022 | 0 | 01/04/2025 | IND B-/Rating Watch with Negative Implications | 500 |
| NCDs | INE028U08024 | 29/07/2022 | 0 | 01/04/2025 | IND B-/Rating Watch with Negative Implications | 270 |
| NCD (Unutilised) | | | | | IND B-/Rating Watch with Negative Implications | 320 |

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# India Ratings Assigns Jana Capital's Additional NCDs 'IND B-'; Maintains Existing on Rating Watch with Negative Implications

May 11, 2023 | Holding Company

India Ratings and Research (Ind-Ra) has taken the following rating actions on Jana Capital Limited's (JCL) non-convertible debentures (NCDs):

| Instrument | Date of Issuance | Coupon Rate (%) | Maturity Date | Size of Issue (billion) | Rating/Rating Watch | Rating Action |
|---|---|---|---|---|---|---|
| NCDs^ | - | - | - | INR15.5 | IND B-/Rating Watch with Negative implications | Assigned; Placed on Rating Watch with Negative Implications |
| NCDs* | - | - | - | INR2.5 | IND B-/Rating Watch with Negative Implications | Maintained on Rating Watch with Negative Implications |

^ Yet to be issued
*Details in Annexure

**Analytical Approach**: To arrive at the ratings, Ind-Ra continues to take a consolidated view of JCL and its 100% subsidiary Jana Holdings Limited (JHL; debt rated at 'IND B-'/Rating Watch with Negative Implications) as both the entities have a cross-default clause with each other's indebtedness. The ratings also factor in the credit profile of Jana Small Finance Bank (JSFB; 42.88% stake held by JHL), using Ind-Ra's Parent-Subsidiary Linkage criteria.

JCL, a non-deposit taking non-bank finance company-core investment company, holds 100% stake in JHL. JHL has limited financial strength. It is a non-operating financial holding company of JSFB (42.88% stake held by JHL) and the value of its investments is derived solely from its shareholding in JSFB. The value of the stake in JSFB is largely subject to the bank's incremental performance (banking operations commenced in March 2018).

The rated INR2.5 billion NCDs, issued to TPG Asia VI India Markets Pte. Ltd, are junior to all other issues raised by JHL. Nevertheless, the NCDs raised by JHL and JCL have a cross-default clause with each other's indebtedness. The NCDs are created in the favour of Catalyst Trusteeship Limited and are subservient to the first ranking pledge created for the benefit of the holders of the NCDs issued by JHL over the equity shares of JSFB held by JHL until the senior instruments are paid-off on their due dates.

Ind-Ra has maintained the ratings on Rating Watch with Negative Implications owing to a consistent deterioration in the financial risk profiles of JCL and JHL with net losses, weak capitalisation and stretched liquidity, imposing high refinancing risks over the near term, given the limited financial flexibility of the company to repay its near-term debt maturities in May 2023. A major portion of JHL's and JCL's near-term debt maturities is held by its key shareholders. The group is exploring refinancing options to ensure the timely repayment of the maturing NCDs. The agency also notes that the minimum promoter shareholding of 40% in the bank, which is to be held for five years after the commencement of operations, expired at end-March 2023 The promoter has to maintain a minimum shareholding of 20% in the bank March 2023 onwards . The Rating Watch will be resolved before repayment of INR3 billion of near-term debt maturities, which fall due in May 2023.

A common independent director serving on the Boards of Ind-Ra and JCL did not participate in the meeting of their Board of Directors or in the meeting of the rating committee, when the securities of such rated client were being discussed.

## Key Rating Drivers

**High Refinancing and Valuation Risks for Holding Companies:** The issued NCDs face refinancing risks. The NCDs need to be repaid to the extent of the principal and the high rate of return promised to the investors. JCL's NCDs have a cross-default clause with the existing indebtedness of JHL. JHL has sizable repayments of INR15.3 billion and JCL of INR2.6 billion due in May 2023. Ind-Ra will continue to monitor the repayment efforts taken by the company over the near term.

**Liquidity Indicator for JCL - Poor:** JCL does not have cash flows to service its debt obligations and will have to depend on the monetisation of its stake in JSFB or the secondary sale of shares, refinancing, among other options, before the maturity date of the respective instruments. The agency expects no dividend income from JSFB over the medium term. JHL holds a 42.88% stake in JSFB and is listing the bank. JHL and JCL are also getting merged, for which, consent from the 90% creditors is pending. Furthermore, the debt raised by both the holding companies are in the form of zero-coupon bonds, which is leading to lumpy pay-outs on maturity in May 2023.

**Weak Standalone Financial Profile for JCL:** As per FY23 provisional financials, JCL's earnings profile remained weak with a net loss of INR3,570.2 million (FY22: net loss of INR2,748.5 million). Moreover, JCL was unable to meet the minimum capital requirement of 30% as per the regulatory requirements for an non-banking financial institute-core investment company (NBFI- CIC). JCL's FY22 auditor report indicated concerns related to the going concern principle for JCL considering the accumulated losses, and the resultant erosion in the net worth and breach of the regulatory financial parameters as stated above.

**Bank's Portfolio Mix in Favour of Secured Loans:** JSFB is strategically shifting towards a secured loan portfolio and the share of secured portfolio in its portfolio increased to 55% at FYE23 (FYE22: 47%). JSFB has also been lowering its group loan exposure (FYE23: 3%, FYE22: around 16%, FYE21: 36%). Ind-Ra believes the group loan portfolio will continue to decline with the increasing share of secured portfolio. Ind-Ra believes this will improve the bank's asset quality over the medium term.

**COVID-19 Impact Continues to Weigh on JSFB's Asset Quality; Seasoning of Secured Portfolio Remains to be Seen:** JSFB's gross non-performing assets stood at 3.6% at FYE23 (FYE22: 5.0%) with from the majority comprising of unsecured individual loan (46% of gross non-performing assets. JSFB had written off assets worth INR5.85 billion in 2022, mainly unsecured loans (group loan). The net non-performing assets stood at 2.4% at FYE23 (FYE22: 3.4%, FYE21: 5%, FYE20: 1.4%). The provision stood at INR2.4 billion in March 2023 with a moderately low provision coverage ratio of 34% in FY23 (FY22: 32%). However, given the increasing proportion of secured loans in the portfolio, the bank is likely to increase the provision cover only modestly over the medium term.

**Modest Profitability Expectations; Credit Costs from Secured Portfolio to be Seen:** At FYE23, the company reported

improved-but-modest profit of INR2.56 billion (FY22: INR0.05 billion, FY21: INR0.84 billion, FY20: INR0.3 billion). The bank's credit cost increased to 3.3% in FY23 from 2.5% in FY20, mainly due to write-offs from the unsecured portfolio. The agency believes the bank has the scale to be modestly profitable and expects the credit costs to moderate with the rise of secured loans in the portfolio, which could boost the profitability over the medium term.

**JSFB's Capital Ratios Remain Constrained:** At FYE23, JSFB reported a tier-1 capital ratio of 13.0% (FY22: 11.83%, FYE21: 11.75%) and a total capital adequacy ratio of 15.6% (15.26%, 15.51%), both lower than its peers'. Furthermore, since the bank's provisioning levels are low and its net non-performing asset/equity was high at 26% at FYE23 (FYE22: 42.7%), it will need to build higher capital buffers, especially if the recovery slows. JSFB has been supported by regular equity infusions in the past from investors with a capital infusion of INR4.03 billion from January 2022 to December 2022. The bank had also raised INR3.40 billion equity in FY20 (FY19: INR10.90 billion, FY18: INR16.40 billion) from existing and new investors. As per the licensing guidelines, the bank was going to list itself on the stock exchanges (BSE Ltd,/National Stock Exchange of India Ltd) by March 2021. However, it has been delayed due to the pandemic, and thus, is still under process.

**Liquidity Indicator for JSFB – Adequate:** JSFB maintained excess statutory liquidity reserves of INR25.75 billion in FY23, in addition to the cash reserves that it needs to maintain as part of the regulatory requirement. The bank's liquidity coverage ratio stood at 553% at FYE23 (FYE22: 555%; FYE21: 1,199.67%). The bank also had unutilised lines worth INR6.5 billion from refinancing institutions at end-March 2023.

JSFB has also been able to mobilise substantial deposits, with the term deposits increasing to INR130.4 billion in FY23 (FY22: INR104.8 billion), and the current and savings accounts to INR32.9 billion (INR30.5 billion). The total deposits stood at INR163.3 billion at FYE23, of which, more than 80% have a tenor of more than one year. Given the substantial traction in low-cost deposits, JSFB's cost of funds improved to 6.7% in FY23 (FY22: 7.1%, FY20: 7.6%). The cost of funds was also supported by a rollover of 50%-60% of its fixed deposits, which were raised at high interest rates two-to-three years ago. However, Ind-Ra expects the share of the current account saving account to decline over the medium term with a rise in the interest rates exerting some pressure on the cost of funds.

## Rating Sensitivities

The Rating Watch with Negative Implications indicates that the ratings may either be downgraded or affirmed upon more clarity on the repayments of the upcoming NCD maturities. The agency will continue to monitor the developments across the arrangements for the same.

## ESG Issues

**ESG Factors Minimally Relevant to Rating:** Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on JCL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

## Company Profile

JCL was incorporated on 26 March 2015 to carry on the business of an investment company and to invest, buy, sell or deal in any share, stock, and debenture. The company received a certificate of registration dated 24 March 2017 from the Reserve Bank of India as a non-banking financial institution – non-deposit taking – systematically important

core investment company under section 45IA of the Reserve Bank of India Act, 1934. JSFB had total advances of INR161 billion and a diversified presence across 23 states and union territories in India at end-December 2022.

**FINANCIAL SUMMARY**

| Particulars (INR billion) | FY23 (Provisional) | FY22 |
|---|---|---|
| Total assets | 0.017 | 2.36 |
| Total equity | -3.38 | 0.18 |
| Net income | -3.6 | -2.7 |
| Return on average assets (%) | -96.1 | -54.96 |
| Source: JCL, Ind-Ra | | |

## Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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## Rating History

| Instrument Type | Current Rating/Outlook | | | | | Historical Rating/Outlook | |
|---|---|---|---|---|---|---|---|
| | Rating Type | Rated Limits (billion) | Rating | 21 March 2023 | 30 June 2022 | 8 October 2021 | 8 October 2020 |
| NCDs | Long-term | INR18 | IND B-/Rating Watch with Negative Implications | IND B-/ Rating watch with Negative implications | IND B+/Stable | IND B+/Stable | IND B+/Stable |

## Annexure

| Instrument Type | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Size of Issue (billion) |
|---|---|---|---|---|---|
| NCDs | INE028U08016 | 30 October 2019 | 5% | 31 May 2023 | INR1.5 |
| NCDs | INE028U08024 | 30 June 2022 | 0% | 1 April 2025 | INR0.5 |
| NCDs | INE028U08024 | 29 July 2022 | 0% | 1 April 2025 | INR0.27 |

| | | | | | |
|---|---|---|---|---|---|
| NCDs (Unutilised) | | | | | INR0.32 |

## Complexity Level of Instruments

| Instrument Type | Complexity Indicator |
|---|---|
| NCDs | Low |

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

## Contact

**Primary Analyst**
Aishwary Khandelwal
Senior Analyst
India Ratings and Research Pvt Ltd
Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East,Mumbai - 400051
+91 22 40001700
For queries, please contact: infogrp@indiaratings.co.in

**Secondary Analyst**
Jindal Haria
Director
+91 22 40001750

**Chairperson**
Prakash Agarwal
Senior Director
+91 22 40001753

**Media Relation**
Malini Das
Director – Corporate Communication
+91 22 40356122

## APPLICABLE CRITERIA

**Financial Institutions Rating Criteria**

**Rating FI Subsidiaries and Holding Companies**

**Evaluating Corporate Governance**

**The Rating Process**

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